

Useful Objectives of Western Agriculture



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in the April issue of the
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Thos. C. W. Peterson
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FOREWORD

THE following is a reprint of an article on the agricultural situation, which will appear in the April issue of the FARM AND RANCH REVIEW. It was written as a blanket reply to the very large volume of letters received by me from subscribers arising out of my article: "The Agricultural Crisis and Its Economic Antidote," in our 15th of January number, which also was issued in pamphlet form.

Agricultural leadership in the West has always been ultra-radical, and, in times of stress, it is a popular task to inflame public opinion and create class hatred. Sanity and tolerance are easily discarded, and farmers presently begin to regard themselves as a class at war with society. On such occasions the influential agricultural press has a solemn, though highly unpopular, duty to perform, which the REVIEW has never shirked.

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(Reprint from FARM AND RANCH REVIEW)

WE PUBLISH in another column selected extracts from a large number of letters I have received, discussing my recent editorial, "*The Agricultural Crisis and Its Economic Antidote*," in our 15th of January issue. I am grateful to all the thinking, interested readers who are taking the trouble to write me in connection with this. The present article is designed to answer my critiques and also to summarize and enlarge on my arguments. In my previous article I dealt almost exclusively, and purposely, with what I consider the most important element in the present inflated commodity prices, namely, the wages of human labour. Obviously, there are other factors of more or less importance entering into prices, and many of my correspondents emphasize this fact, and apparently regard lack of extended reference thereto as an omission on my part. In deference to their wishes, I will here also deal briefly with some of the others.

Let me, however, first of all point out, that the REVIEW aims, under all circumstances, honestly to champion the cause of western agriculture. Beyond this we have no "axe to grind." On the other hand, I am well aware of the fact that my views run counter directly to those of many of the

political and other farm leaders, who, for many years, have gone up and down the country and denounced the "interests," meaning, I presume, Canadian industrial and financial concerns, who have been accused of grinding down the western farmer and taking a fiendish delight in his troubles and misfortunes. They have also attempted to make common cause with organized labour in our cities, and endeavoured to convince the farmer, the greatest property owner in Canada, that a political alliance with the urban wage-earner was in his best interest.

POISONOUS PROPAGANDA

I HAVE always regarded this demagogue propaganda as particularly stupid and exceedingly poisonous. Appeal to "class hatred" is the lowest form of propaganda. There is no class of citizens anywhere in Canada, that would not face near-ruin if western agriculture should definitely go "on the rocks," more especially Canada's financiers and manufacturers. One's common sense would surely indicate, that their only hope of success lies in a prosperous western agriculture, and that motives of self-preservation would compel them to do everything within their power to assist the western farmer in his present difficult position. So, please, do not interpret my arguments as founded upon enmity towards labour, of which I am not at all conscious, or as special pleading for the so-called "interests."

Western farmers and their organizations have been "chasing rainbows" for many years, and, I hope, I may be pardoned, on this occasion, for expressing my views candidly. It seems to me, that what is needed now is a practical programme. I am neither discussing nor condemning here the many spectacular

plans for revolutionizing the banks, the currency and credit and tariff structure in Canada, which have enlisted the support of earnest and enthusiastic crusaders, and which have been continually before farmers' meetings. Many of them are, I am afraid, frankly beyond my comprehension, but merit may be found in them all, as far as I know. I am confining the present discussion to what I may term, practical, obvious issues, upon which there can scarcely be any division of opinion, and upon which western farmers might, for the present, advantageously focus their undivided attention. Consideration of revolutionary measures may, I think, profitably be postponed until we have finally exhausted our capacity for dealing with the many serious problems lying under our very noses. Let us, for once, give idealism an extended holiday and be severely practical, and, above everything, let us endeavour to be tolerant and to think straight.

SEVERAL readers see inconsistency between my claim that eighty-five per cent. of commodity costs represents wages for human labour, and my picture of ever-increasing mechanization to displace such human labour. The eighty-five per cent. estimate was made by a noted economist two years ago. It represented the approximate situation at that time. Obviously, it changes somewhat in sympathy with the state of mechanization in each industry. Of course, under the heading of "human labour," I include your doctor, dentist, lawyer and other professional men rendering services, and under "labour organizations," we must include their associations for the regulation of professional fees. I also include salaries of business executives, salesmen and clerical help. It is all human labour,

although not all "union" labour, according to the popular use of the word.

An industry may put in a machine that cuts the labour cost of a certain process by 30 per cent.; but that does not mean that we can deduct that thirty per cent. from the eighty-five per cent. estimate of labour cost. The new machine itself represents at least an eighty-five per cent. labour cost, as well as a ten per cent. per annum depreciation to cover its replacement in ten years. This is indirect labour cost. The only item in the chair you sit on that cannot be reduced to a labour cost, is the standing tree it was made out of, which nature provided without the aid of human labour.

WHO GETS THE SAVING?

A COMMODITY manufactured in a very highly mechanized industry is obviously produced at a comparatively low, direct labour cost, and the popular supposition is, that the owners or shareholders of such an industry can then calmly pocket the saving. This point is strongly brought out by many correspondents. But that does not happen except in story books and at political meetings. Harvey Firestone, the famous tire manufacturer, in a report to his shareholders, just received, says:

"On behalf of the Board of Directors, I present herewith report for the fiscal year ending October 31, 1930. The rubber tire industry is outstanding in the progress it has made in improved and economical manufacturing. With the machinery we have developed which makes better and more uniform tires with savings in the waste of materials, one man can make ten tires to-day in the same time he took to make one tire seventeen years ago. The car owner, in turn, can to-day get the same tire value for \$1 that cost him \$10 at that time."

That is the other side of the story. He goes on to say:

"Our sales were \$120,015,663, which is 17 per cent. less than last year. We are glad to advise you that by readjusting our organization and reducing our expenses in every phase of our business, and after writing down our inventories to market prices, absorbing our expenses in organizing and establishing 'One-Stop Service Stores,' establishing and developing our battery business and the expense in connection with our rubber growing in Liberia—and after providing for depreciation, interest, Federal taxes and all charges, we show a net profit for the year of \$1,541,034."

He points with pride to this result. Yet, what does it mean? For every ten dollars worth of tires his company sold, apparently it collected a net profit of only sixteen cents. I am not suggesting, that this is in any way typical of North American industry, but it is, nevertheless, far nearer the actual truth than the charge of industry absorbing all the profits of labour-saving devices.

MEAT PACKING

AN ANALYSIS of the last financial statements of the "Big Four" meat packers is also interesting. During 1930 their sales were two and one-third billion dollars. The combined capital is 607 millions. The profit on capital was 3.74 per cent., but the profit on sales was only 99 cents on every hundred dollars worth sold, or less than one per cent. In the previous year this profit was \$1.12. Expressed in another way—if the leading meat packers last year had sold every \$1.00 worth of product for 99c., they would have made no return whatever on their huge capital and surplus and would actually have lost money!

THE IMPLEMENT INDUSTRY

I HAD occasion recently to analyze the last financial statement of one of the largest tractor companies supplying the Canadian

market. It is generally regarded as a very sound and prosperous concern. Its share capital is a little over nine million dollars; its sales for the year about forty-five million dollars. Its dividends to shareholders have been as follows: 1925, two and a half per cent.; 1926, five and a quarter; 1927, one and two-thirds; 1928, two and two-thirds; 1929, three per cent., and 1930, four per cent. Its sales reached five times its share capital, meaning that its net profit distributed to its shareholders ranged over five years from one-third of one per cent. to a little over one per cent. of its sales. In other words, for every one hundred dollars worth of tractor sold to the public, the shareholders received between thirty-three cents and \$1.05. If the purchasers received the benefit of the whole of this net profit, it apparently would hardly be noticed in the selling price of a tractor. It is also worthy of mention, that the price of this particular tractor (sixty H.P.) has been reduced from \$6,050 in 1925 to \$4,175 in 1930, due to saving in labour cost through mechanization. The shareholders in this case evidently did not pocket the saving made. The demands of competition transferred it to the purchasers.

NEARER HOME

AN ILLUMINATING case happened in our own printing shop quite recently. We had done a certain job for a western government for several years at \$650. We were informed that an eastern competitor had offered to do it at a substantially lower price. I gave instructions to cut our price to cover only our bare cash outlay for material and labour, in order to keep our people employed. But we were still above the competitive price and, quite properly, lost the work. It transpired

that our eastern competitor had installed a special, and very expensive, machine doing mechanically what we had to do by hand. There are only two or three of them in Canada. But he was able to sell the job to the government for \$300. Mark carefully, however, that he did not pocket the saving and obviously made no more net profit than we had done with our hand operation.

PRICES AND COMPETITION

THE FACT of the matter is, that keen competition in industry regulates prices very effectively. We hear much about "com-bines" and "mergers" for the purpose of controlling prices. They seldom work for any length of time. If any branch of industry was able to show extraordinary profits for a long period, people with capital would speedily enter the same field to reap the rich harvest, and competition would get in its levelling work. There has been a great change in the whole outlook of industry and in its relations with the public during the past ten to fifteen years. In spite of all the sensational bunkum of the yellow press and the political speechmakers, average, net profits in industry are on a very reasonable and moderate basis. The conclusive evidence of that is the preference of investors for bonds, to the tune of billions, with fixed yields of from four to six per cent. only, rather than taking chances on the common shares of industrial concerns, which may, or may not, yield a dividend.

There are very few industries in Canada that have been able to consistently maintain an average rate of dividend to their stockholders as high as six per cent. per annum over a period of years. In this connection,

it is an illuminating fact, that an examination of corporation statements made in the United States for 1925, a year of average prosperity disclosed that twenty-four billion dollars worth of business was done by companies that showed no net profits whatever for their shareholders. It is also a fact, that close to half of all the corporations of that country operate at a loss. Competition has now so reduced net profits the world over, that no nation is to-day making even a low income return on its capital-labour investment.

HIGH COST OF DISTRIBUTION

IT IS as certain as anything can be, that the present high commodity costs cannot fairly be laid at the door of increased industrial profits. I will go as far as to say, that if these net profits were abolished entirely, the effect on prices would be comparatively imperceptible. As I have shown, the main factor is the high, direct and indirect, labour cost. There is, however, another factor of very great influence, namely, distribution cost and that, of course, is also mainly labour or salary. The statement has been made by an eminent authority, that the spectacular saving in the cost of industrial labour in manufacturing in North America during the past fifteen years, has been largely absorbed by increasing distribution costs. That in order to reap the economic advantages of mass production in industry, mass selling has been forced upon the industrial machine, with the above deplorable result. In other words, on account of the increased cost of selling, the consumer has not generally received his share of lower factory costs due to mechanization, in lower commodity prices.

THE ARMY OF MIDDLEMEN

STUART CHASE, a brilliant author and thinker, puts the case this way:

" Machine displacement is now proceeding at a faster rate than ever before; a perfectly fantastic rate as we shall see. Adjustments which used to have the freedom of the years must now be made in months. The costs of distribution have trebled since 1870, and it is reasonable to suppose that there is a limit to the men and women who can be packed into the line between factory door and ultimate consumer—retailers, jobbers, house-to-house canvassers and the rest. There is certainly one distributor at the present time for every producer, and in many trades the ratio is as high as two to one. . . ."

If his estimate is anywhere nearly correct, it is a perfectly appalling situation. This extravagant and uneconomic distributing machine is apparently levying a toll on agriculture that results directly in a lower standard of living and longer hours of labour on the farm. A pair of four-dollar shoes at the factory—which probably yields the manufacturer less than twenty-five cents net profit—must retail for at least six dollars to support the whole, wasteful chain of distribution.

OVER-CAPITALIZATION OF INDUSTRY

A GRIEVANCE with many of my correspondents is the present over-capitalization of many large industrial concerns through mergers and reorganization. I have no hesitation in declaring, that the operations of a number of unscrupulous apostles of "high finance" in Eastern Canada during the past decade, is a standing disgrace to our boasted civilization. The "chicken feed" gathered up by a bunch of small-time stock brokers, recently brought them promptly behind the bars, and led to pages of newspaper indignation. But these other pirates are "within the law."

But I still maintain that, with an odd exception, over-capitalization cannot influence the level of commodity prices. By and large, prices are established through the pressure of competition and not with any reference to the need of the industry. Highly profitable prices in any branch of industry invariably lead to increased competition, for exactly the same reason that they lead to over-production in agriculture. The reason being, that everyone wants a slice of the "easy" money. It is a natural law of human conduct that has prevailed through the ages and will continue to prevail under free institutions. The sufferers are the purchasers of inflated securities.

SOME CONSTRUCTIVE AIMS

SEVERAL correspondents ask me to come down to "brass tacks," as one of them puts it, and formulate a definite, constructive programme to meet existing conditions that western agriculture could consider intelligently. Such an undertaking is beyond the scope of the present articles, but I have no objections to briefly outlining some very obvious aims that all western farmers could agree on, if my premises are correct. "

(1) Compensation for all labour, being the controlling factor in the prices of all commodities and services, should be reduced to a point approximately equivalent to the average compensation of the farm, taking into full consideration the variation in urban and rural costs of living. Industrial, transportation and other wages should then be adjusted periodically in sympathy with changing commodity prices. This is largely a problem in propaganda. Our legislatures should go on record, and pressure should be brought

to bear on those responsible for wages and salary adjustments. Agricultural organizations should maintain a strong and consistent agitation to secure a change from the present monstrous, economic maladjustment.

(2) The next item in point of importance is the top-heavy cost of distribution. The same action as under (1) is indicated here. Public investigation, following the action that is now being taken in the United States, under the direction of President Hoover, might help to focus public opinion on this very costly evil.

TARIFF SITUATION AND TRANSPORTATION

(3) We are now approaching a situation in the West where we are going to be on a permanent export basis in practically all lines of agricultural production. As long as that condition prevails a protective tariff on farm products obviously cannot become operative. That ends any selfish, economic interest the present generation of western farmers may have in the theory of protection as a fiscal system. The genesis of the protective tariff was; that eastern Canada needed industrial development. We legislated into existence a very far-reaching scheme of state socialism, under which we confer on urban industry the power to tax the consumer according to a specified scale. This bonus enables him to carry on in competition with low wage or mass-producing countries.

We have lived under such a fiscal system in Canada for the past sixty years. We will assuredly continue to live under the same system for the next sixty years, in spite of all the impassioned out-pourings of our political spell-binders. So let us not waste time running our heads against a stone wall, but

endeavour to formulate a plan under which economic justice may be accorded the agricultural West. The people of Canada will readily agree, that agricultural prosperity is, as a matter of national policy, even more essential than industrial development. The plain truth is, that the Canadian farmer can get on comfortably without urban industry, but the latter could not function for a moment without the farmer consumer. As I see it, it would be entirely equitable, and also excellent national policy, for the people of Canada to say to the Western farmer:

"You have made, and are daily making, a very substantial contribution towards rendering possible industrial development in Eastern Canada, which costs you an unstated, in fact an unknown, amount per farm. In the present state of agricultural stress you urgently require transportation concessions in respect to animals and certain animal products in order to overcome the great handicap of your inland situation in competing in the export market, which we all admit the railways cannot reasonably be asked to grant you. The people of Canada will, as an act of economic justice, to promote agricultural development and to gain your friendship, goodwill and co-operation, make a special deal with the railways to grant you whatever rates are necessary to place animal husbandry on a permanently paying basis. Aside from the economic merits of the case, we deem this to be good business and in the national interest."

A FEASIBLE ALTERNATIVE

I see no difference in principle between these two positions. They may both be classed as indirect bonussing and we have ample precedent to guide us. Under the deal with the Maritime Provinces, designed to compensate them for certain economic grievances—also largely due to the operation of Canada's protective tariff—legislation has been passed, entitled the "Maritime Freight Rates Act," under which the three Atlantic provinces enjoy a scale of rates substantially more favourable than those prevailing elsewhere in the Dominion. To be exact, twenty per cent. lower. The people of Canada annually compensate the railways for the resulting deficit, which involves a payment of three million dollars out of the public treasury.

In case this method of securing lower freight rates on animal products, should, for any reason, not prove feasible, authority might be given our railways to materially decrease freight rates on export animal products and to increase rates on class freight to take up estimates loss of revenue. We cannot export successfully under present transportation handicaps. This would cast the burden on all the Canadian people.

TAXATION

(4) Our Federal and Provincial governments are doubtless at present burning the midnight oil to discover new sources of taxation to compensate for falling revenues. Notice should be served on these bodies, that the Canadian taxpayer has reached the breaking point in taxation. They should be informed, that to meet the present crisis, cost of government, including expenditures

for roads, education, health and other presumed "indispensable" services, must be ruthlessly cut. Not increased taxation, but a "Geddes Axe" is the proper remedy, even to the extent of abolishing in toto entire services. We face a crisis and governments had better recognize the fact, if they aspire to a long and happy life.

FINANCIAL

(5) (a) Decrease in rate of interest on rural mortgage loans. This might be accomplished by making Federal Land Bonds free of income taxes, thus lowering the cost of money for agricultural borrowing, and following the established practice in the United States.

(b) A seven-per-cent. maximum bank interest rate on agricultural loans.

(c) The banks to be urged to provide intermediary credit facilities for the promotion of animal husbandry, such as is available south of the line, either directly or through some subsidiary organization to be created. The Beatty scheme will probably solve this problem.

(d) Decreased rates of interest on commercial notes, particularly on past due paper, now carrying ten per cent. interest in many cases.

(e) A reduction in the present six per cent. interest rate of our large land-selling corporations. This, I believe, would be conceded, as these companies have, by this time undoubtedly found, that this rate is uneconomic and cannot, as a matter of experience, be collected. This rate was a negligible factor when land was selling at \$3 to \$5 per acre. With higher land prices it cannot successfully be maintained.

PRIME MINISTER'S CONFERENCE

The points embraced under (5) could not, of course, all be made the subject of compulsory legislation, but the Prime Minister of Canada, acting perhaps in conjunction with the Premiers of the provinces, would wield a very powerful influence on those responsible for interest rates. Facing a comparable, but not nearly so urgent a problem, President Hoover recently called conferences with business and financial leaders at Washington, and firmly expressed his convictions and wishes. It doubtless had a salutary effect. Great power over commerce and industry rests in the hands of responsible statesmen and their wishes, emphatically expressed, would not be ignored in the absence of the gravest reasons. Our business leaders would doubtless prefer to put their own house in order, rather than to run the risk of coercive legislation, which might easily prove very embarrassing. I also have the greatest confidence in the good sense and good faith of these men, and that they would, at least, meet the situation to the greatest extent possible. Such a round table conference would be productive of excellent results, and the gravity of the present crisis amply justifies such an informal procedure.

THE COMPANY LAW

(6) If we have any further time and energy to spare, we might respectfully, but firmly, intimate to our various law-making bodies, that we want a company law with teeth in it. We might point out, that the money which goes into industrial and other flotations is national savings, and as such are entitled to all the protection that can be devised. Mergers and re-financing operations

that net the promoters millions of dollars of profits, while the public is handed out highly diluted securities of various kinds are, in fact, swindles, although the law fails to so define them. There is a useful job to be done here, and all decent people would like to see it properly done. The indefatigable Mussolini is very busy at the present moment in Italy to put a stop to precisely this type of financial piracy. This problem should not be beyond our ingenuity in Canada.

A DISSENTING OPINION

IN CLOSING, I should, I think, direct attention to the remarks of my very good friend, Prof. Swanson, of the University of Saskatchewan, who, in a recent speech before the Canadian Club at Regina, stated in effect, that if, in endeavouring to meet the present crisis, Canada should adopt a general policy of lower wages and standard of living, it would, in his judgment, be nothing short of calamitous. His remedy was, he asserted, to increase the price level of agricultural products. Prof. Swanson is an economist of reputation, and his views cannot, therefore, be lightly dismissed. The world is waiting impatiently to hear how Dr. Swanson proposes to raise this price level. If he can show the way, all my elaborate and tiresome arguments may be dismissed. There would be nothing further to worry about, because prosperity is "around the corner" after all. But until we hear further from the Professor, with convincing evidence, I am afraid, I shall have to adhere to the view, that western agriculture faces a crisis, as severe as I have ever seen it, which touches fundamentals and cannot be ended by "sugar plum" argument. Agriculture must be given a new

deal in terms of purchasing power, and, if this is to be accomplished, other classes must adapt themselves to a new state of affairs, which will involve some sacrifices all around. There is, I fear, no "royal road" out of the situation in Canada, except through a general crop failure in other countries.

CONCLUSION

OUR law-making bodies are working overtime just now. The game of politics is being exploited as it never was before. All these fireworks leave the thinking public absolutely cold. They are not interested, even to the extent of reading the proceedings. Many do not even know that these legislative assemblies are in session. While agriculture lies prostrated, weeks are wasted on debating the Speech from the Throne and every hare-brained suggestion for relieving the farmer. Is it too much to ask, that in the present stress—quite as serious as the war period—all parties should "bury the hatchet" and join in an effort to get the whole country back on an even keel?

It seems to me, that the greatest importance attaches to a proper diagnosis of our particular economic problem, and that the farmers of the West cannot afford to be misled by those who have nothing but secession, communism and a "hymn of hate" to offer them. If my conclusions are substantially correct, there is a way out, and economic events at present are actually tending towards a solution of some of our problems. By organized effort we can accelerate matters considerably. Farmers should call meetings and discuss these suggestions seriously, and advise their leaders and political representatives of their conclusions.